

CISCO SYSTEMS INC
Form 10-Q
May 20, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 25, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-18225

CISCO SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

170 West Tasman Drive

San Jose, California 95134

77-0059951
(I.R.S. Employer
Identification Number)

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(Address of principal executive office and zip code)

(408) 526-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of May 14, 2009, 5,767,880,540 shares of the registrant's common stock were outstanding.

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(in millions, except par value)

(Unaudited)

| | April 25, 2009 | July 26, 2008 |
|---|-------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,359 | \$ 5,191 |
| Investments | 26,192 | 21,044 |
| Accounts receivable, net of allowance for doubtful accounts of \$203 at April 25, 2009 and \$177 at July 26, 2008 | 2,392 | 3,821 |
| Inventories | 1,023 | 1,235 |
| Deferred tax assets | 2,050 | 2,075 |
| Prepaid expenses and other current assets | 2,320 | 2,333 |
| Total current assets | 41,336 | 35,699 |
| Property and equipment, net | 4,089 | 4,151 |
| Goodwill | 12,569 | 12,392 |
| Purchased intangible assets, net | 1,656 | 2,089 |
| Other assets | 5,016 | 4,403 |
| TOTAL ASSETS | \$ 64,666 | \$ 58,734 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ | \$ 500 |
| Accounts payable | 653 | 869 |
| Income taxes payable | 83 | 107 |
| Accrued compensation | 2,413 | 2,428 |
| Deferred revenue | 6,110 | 6,197 |
| Other current liabilities | 3,602 | 3,757 |
| Total current liabilities | 12,861 | 13,858 |
| Long-term debt | 10,317 | 6,393 |
| Income taxes payable | 1,038 | 749 |
| Deferred revenue | 2,663 | 2,663 |
| Other long-term liabilities | 504 | 669 |
| Total liabilities | 27,383 | 24,332 |

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| | | |
|---|------------------|------------------|
| Minority interest | 27 | 49 |
| Shareholders' equity: | | |
| Preferred stock, no par value: 5 shares authorized; none issued and outstanding | | |
| Common stock and additional paid-in capital, \$0.001 par value: 20,000 shares authorized; 5,772 and 5,893 shares issued and outstanding at April 25, 2009 and July 26, 2008, respectively | 33,974 | 33,505 |
| Retained earnings | 3,292 | 120 |
| Accumulated other comprehensive income (loss) | (10) | 728 |
| Total shareholders' equity | 37,256 | 34,353 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 64,666 | \$ 58,734 |

See Notes to Consolidated Financial Statements.

Table of Contents**CISCO SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(in millions, except per-share amounts)****(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | April 25, 2009 | April 26, 2008 | April 25, 2009 | April 26, 2008 |
| NET SALES: | | | | |
| Product | \$ 6,420 | \$ 8,199 | \$ 22,402 | \$ 24,459 |
| Service | 1,742 | 1,592 | 5,180 | 4,717 |
| Total net sales | 8,162 | 9,791 | 27,582 | 29,176 |
| COST OF SALES: | | | | |
| Product | 2,327 | 2,872 | 8,045 | 8,592 |
| Service | 606 | 649 | 1,904 | 1,869 |
| Total cost of sales | 2,933 | 3,521 | 9,949 | 10,461 |
| GROSS MARGIN | 5,229 | 6,270 | 17,633 | 18,715 |
| OPERATING EXPENSES: | | | | |
| Research and development | 1,243 | 1,483 | 3,928 | 3,975 |
| Sales and marketing | 1,956 | 2,205 | 6,394 | 6,441 |
| General and administrative | 302 | 324 | 1,077 | 1,033 |
| Amortization of purchased intangible assets | 121 | 117 | 369 | 350 |
| In-process research and development | | | 3 | 3 |
| Total operating expenses | 3,622 | 4,129 | 11,771 | 11,802 |
| OPERATING INCOME | 1,607 | 2,141 | 5,862 | 6,913 |
| Interest income, net | 89 | 201 | 443 | 636 |
| Other income (loss), net | (9) | (33) | (145) | 20 |
| Interest and other income (loss), net | 80 | 168 | 298 | 656 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 1,687 | 2,309 | 6,160 | 7,569 |
| Provision for income taxes | 339 | 536 | 1,107 | 1,531 |
| NET INCOME | \$ 1,348 | \$ 1,773 | \$ 5,053 | \$ 6,038 |
| Net income per share: | | | | |
| Basic | \$ 0.23 | \$ 0.30 | \$ 0.86 | \$ 1.00 |
| Diluted | \$ 0.23 | \$ 0.29 | \$ 0.86 | \$ 0.97 |

Shares used in per-share calculation:

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| | | | | |
|---------|-------|-------|-------|-------|
| Basic | 5,805 | 5,942 | 5,844 | 6,014 |
| Diluted | 5,818 | 6,069 | 5,871 | 6,202 |

See Notes to Consolidated Financial Statements.

Table of Contents**CISCO SYSTEMS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in millions)****(Unaudited)**

| | Nine Months Ended | |
|--|---------------------------|---------------------------|
| | April 25, 2009 | April 26, 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 5,053 | \$ 6,038 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,244 | 1,314 |
| Employee share-based compensation expense | 835 | 767 |
| Share-based compensation expense related to acquisitions and investments | 66 | 67 |
| Provision for doubtful accounts | 36 | 34 |
| Deferred income taxes | (166) | (876) |
| Excess tax benefits from share-based compensation | (25) | (375) |
| In-process research and development | 3 | 3 |
| Net losses (gains) on investments | 113 | (109) |
| Change in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 1,337 | (219) |
| Inventories | 199 | 54 |
| Lease receivables, net | (127) | (320) |
| Accounts payable | (198) | 12 |
| Income taxes payable and receivable | 274 | 405 |
| Accrued compensation | 120 | 301 |
| Deferred revenue | 9 | 1,553 |
| Other assets | (618) | (357) |
| Other liabilities | (243) | 268 |
| Net cash provided by operating activities | 7,912 | 8,560 |
| Cash flows from investing activities: | | |
| Purchases of investments | (31,865) | (14,093) |
| Proceeds from sales of investments | 17,291 | 13,043 |
| Proceeds from maturities of investments | 9,088 | 1,718 |
| Acquisition of property and equipment | (794) | (908) |
| Acquisition of businesses, net of cash and cash equivalents acquired | (338) | (385) |
| Change in investments in privately-held companies | (78) | (63) |
| Other | (54) | 6 |
| Net cash used in investing activities | (6,750) | (682) |
| Cash flows from financing activities: | | |
| Issuance of common stock | | |